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SUCCESS FACTORS FOR LUXURY E-COMMERCE: BURBERRY'S DIGITAL INNOVATION PROCESS

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ABSTRACT

Companies in luxury fashion industry are lagged behind adopting e-commerce due to some difficulties of maintaining brand image in the cyber space. However, e-commerce could bring new opportunities of increasing markets for luxury goods. This study explores digital innovation process in the luxury fashion industry. It also investigates current consumers' behaviors in the online market. Based on in-depth analysis of Burberry, recognized as a digital innovation leader in luxury industry, this study presents some of critical success factors on luxury fashion e-commerce.

KEYWORDS: E-commerce, Digitalization, Luxury Brand and Burberry

INTRODUCTION

E-commerce is an inevitable trend as consumers purchase more products and services from online shopping (Kotler & Keller, 2006). Luxury brands are characterized by various factors such as premium image, high-quality products and services, pleasurable purchase and consumption experience, premium pricing strategy (Keller, 2008), creativity, innovation and exclusivity (Okonkwo, 2004). However, companies in an luxury fashion industry are lagged behind adopting e-commerce due to the difficulties of maintaining its brand identity. We argue that e-commerce could bring new opportunities of increasing markets for luxury goods.

This study examines digital innovation processes and it effects on the luxury fashion industry. To achieve this purpose, we examined the case of Burberry recognized as digital innovation leader in the luxury industry. This study presents critical success factors on the adoption of e-commerce for the luxury brand: facilitating personalized online communications and providing more customized products. This study analyzed the general environment of the luxury industry and then we integrated the e-commerce advantages and disadvantages with the use of the classical Porter's value chain.

LUXURY INDUSTRY AND E-COMMERCE

Luxury Industry

The word luxury originated from the Latin word, Luxus that means soft or extravagant living, indulgence sumptuousness. Europe is the origin for international luxury brands: sales in Europe, whose luxury brands account for around 75% of the global market, are seen up 6% in 2012, fuelled by shoppers from emerging markets such as China. Despite of the global economic crisis, in 2010 luxury market has increased its profit by 10% (Astengo, 2009).

Figure 1 shows that global sales should rise to €173-176 billion in 2011 (Aarkstore Enterprise, 2010). Although competition remains tough, luxury goods groups' margins are expected to improve next year.

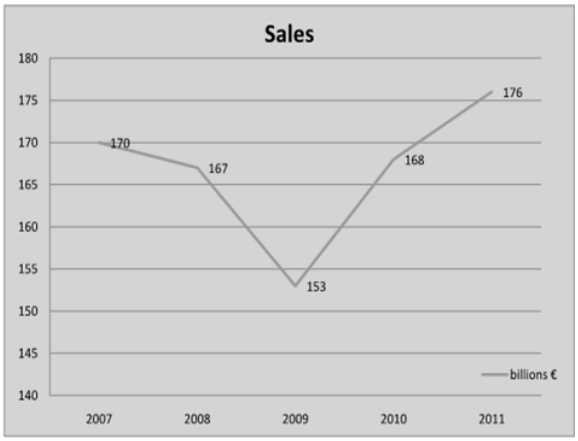

Figure 1: Luxury Brand Sales

New Trends: Luxury and E-commerce

Rodgers et al. (2002) define e-commerce as "the buying and selling activities over the Internet. This includes such transactions as placing orders, making payments, and tracking delivery of orders on the Internet. According to Okonkwo (2009), luxury is not single object like a product, an object but an identity, philosophy and a culture. E-commerce is based on online transaction has limitation to deliver real experience like touch, smell and atmosphere so that is regarded as not proper channel for luxury products.However, today it has vast importance for luxury clothing brands: by 2015 e-commerce in the luxury goods industry is expected to have an annual growth rate of 20% (L2 Think Tank, 2011).

Disadvantages: Luxury and E-commerce

Luxury brand firms have started to use online channels later than companies in other industries. The major concerns of luxury brands to adopt e-commerce as a retail channel are the fear of diluting the brand image and losing the exclusivity and prestige of the brand. Furthermore, it is challenging for firms to communicate and represent the luxury brand experience, and the sensory attributes of the products through virtual experiences (Okonkwo, 2009). Luxury products are close to art rather than to pure functional products. Hence, selling and marketing luxury products has to be experiential by creating opportunities for customers to experience multi-sensory elements of the products (Kapferer – Bastien, 2009b). So, it is difficult to get customers to experience them through the internet. According to Kapferel and Bastien (2009a) if a luxury good is sold online, it ceases to be perceived as luxury products.

Advantages: Luxury and E-commerce

Regardless of these various concerns on adopting e-commerce as a distributing channel for luxury products, there are advantages of e-commerce for luxury brands. Moore and Doyle (2010) insist that constructing online presence for luxury brands is an important opportunity can generate rapid brand growth.

Customers are so used to purchase a variety of products conveniently through online shopping. For instance, nearly half of all mobile phone owners in Israel and Japan, and 43% of owners in the U.S., regularly use their phones to access Internet in 2011 (Aaron,2012). The mobile commerce industry sold for about $6 billion in the U.S. Over the next

years they expect mobile sales to grow 40 percent each year, reaching $31 billion by 2016. The frequent online shopping experiences reduce their psychological resistance to purchase luxury products through online stores.

Luxury firms can use e-commerce as a way to reach customers in emerging countries where the demand for luxury products rapidly increases. Accessibility has immense importance in luxury fashion goods purchase (Okonkwo, 2007). However, Luxury firms have very limited number of local stores and restrict the accessibility of luxury products to customers in the developing countries. Furthermore,

The information technology enhances engagement of customers and communications with them (Okonkwo, 2009). Von Hippel (2005) has argued for the importance of engaging users in firms' innovation processes. Luxury firms can have more instant feedbacks from customers by adopting e-commerce. Customers can have more diverse product choices and product information through an online store than an offline store. For instance, social media channels, such as Facebook, Twitter or YouTube, are great ways to stay in close and direct contact with consumers. These channels might not only provide direct feedback from consumers and but also enables luxury firms to spread and promote information about new products or fashion shows

THE CASE: BURBERRY

Burberry History

Burberry founded 1865, in Basingstoke, Hampshire, England by Thomas Burberry. He was a former draper's apprentice, and only 21 years old that time. Not only fabric and cloth, but he also interested in development of materials. Thomas Burberry recognized the fabric, 'smock frock' that the farmers wear it when they working at the field has benefit cool in the summer, and warm in the winter. He improved the smock frock and developed 'gabardine'the water resistant, durable and breathable fabric in 1866. From 1870, the business focused on the development of jacket and coat for outdoor sports. During the First World War, Burberry's coat was internationally known by soldier's Burberry raincoat. Since then, the Burberry raincoats, with their high air permeability, water resistance, and heat retainability, have gained the name 'Burberry'. Moreover, by representing the British Loyal family and the upper classes and being the 'must have' items for the trendy characters in the movies and TV shows, the brand has gained its public reputation and attention (Burberry, 2014).

Burberry is now operating under 4 brands: Burberry Prorsum, which is the base line for other brands, Burberry London, which is ready to wear collection including business wear, Burberry Brit, which is the most accessible of the Burberry brands with entry level pricing, and Burberry Sport, which includes ski-wear and other sports apparel. Burberry also has two regional brands: Burberry Black label and Blue label (Burberry, 2014).

In terms of financial performance, Burberry is one of the most profitable luxury firms in the European market. In 2012, compared to 2011, the total revenues grew by 24%, and their operating profits grew by 25%. Instead of focusing on the short term profits, they focused on the long term actions, and they made a capital investment of £153 million in implementing the digital media. Also, they made major investments in the emerging markets. Although a huge proportion of their profits were from the European market, the competition was too intense, and they needed to find a new market to play in. In Europe, their major competitor was LVMH, whose total revenue in 2011was €3,196 million, with 37% of its profits from Europe. That's why they chose to invest in the emerging markets where the competition was not too high. After investment, their revenue from Asia pacific market increased significantly (Burberry, 2012).

Digital Innovation in Burberry

Burberry's vision is to become the first company to be fully digitalized. Digital technology is becoming an integral part of Burberry, shown by £30million investment which aims to connect Burberry with its customers, employees, partners and suppliers (Burberry, 2011). Burberry aims to create value for both the new customers and the new market through the digital innovation, specifically through the adoption and implementation of the e-commerce. They wanted the customers to have total access to Burberry through any device anywhere, and they wanted them to get exactly the same feeling about the brand regardless of where, when, and how they were accessing the brand. New customer means younger generations since these days potential customers have become younger. They gain ability to purchase high-priced luxury goods at an earlier age than before. Even if the young people do not have the money yet to invest into a $3000 trench coat, the brand is building an emotional connection to them, that later can turn into real sales figures (Meagher, 2011).

The new market means geographical emerging market except Europe, such as Asian market. For example, their potential customers could look use their iPads or even smart phones to view their products and purchase them via their applications. Even if they don't make purchases right away, they would get more information about the brand and its products and it would help them make their purchase decisions at a later time. By using information, they can create new value and new relationship with customers. Digitalization allows diversified channels for the firms to connect to the potential customers and expose their brand and products. Burberry is a luxury brand, so it is still important that customers can experience and feel it. Therefore they also built a flagship store by collaborating sales force. But everything related in digital media. They believed that is the way for the firms to survive and flourishing this digitalized world. Figure 2 summarizes the Burberry's digital innovation process.

VALUE CHAIN ANALYSIS

This research uses Porter's Value Chain model to help us illustrating the challenges and potential value creation of using e-commerce in the luxury business and used Burberry as an example.

Porter's Value Chain can be said to be very focused on manufacturing firms with raw materials that go through several stages to be made into a final product (Kotler and Keller, 2006). We have adjusted the traditional value chain in relation to reflect the characteristics of e-commerce industry.

Porter's Value Chain (1998) is an analytic framework that can identify relevant activities for *value creation.* This model categorized firms'activities into primary and support activities. The primary activities in this model consist of activities that are a direct part of the value creation. These activities include inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities facilitate the function of the primary activities: firm infrastructure, HR management, technology, and procurement.

PRIMARY ACTIVITIES

Inbound logistics include activities such as handling of raw materials, storage, stock management, and product returns. The lead time is the time period from the placement of an order until the customer receives the luxury clothing that can be determined already at this point. Luxury clothing industry often produce seasonal assortments, and in relation to e-commerce where you may have the whole world as a scope, companies must think about where the storage points are located and that these local points are linked up to the online store. In the case of Burberry, as a result of a digitalized

supply chain processes, customers can order directly from the runway that is expected to be delivered to the customers within 7 weeks (Burberry, 2011). Operations are activities in the value chain that transform the raw material into the final product, which is ready for delivery. Within e-commerce we see this category as the distribution centers where the packages are finalized and ready for delivery when an order occurs.

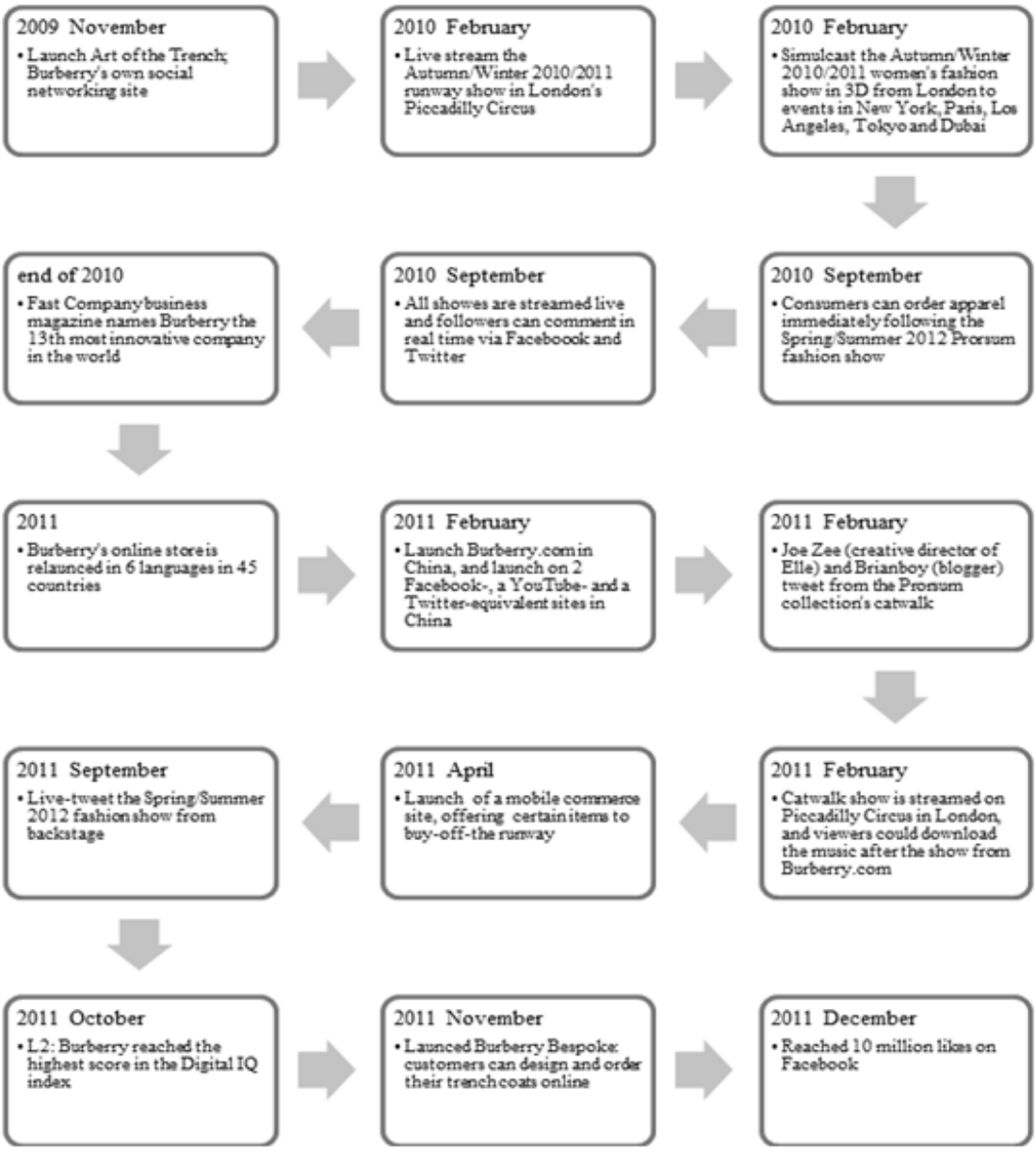

Figure 2: Burberry's Digital Innovation Process

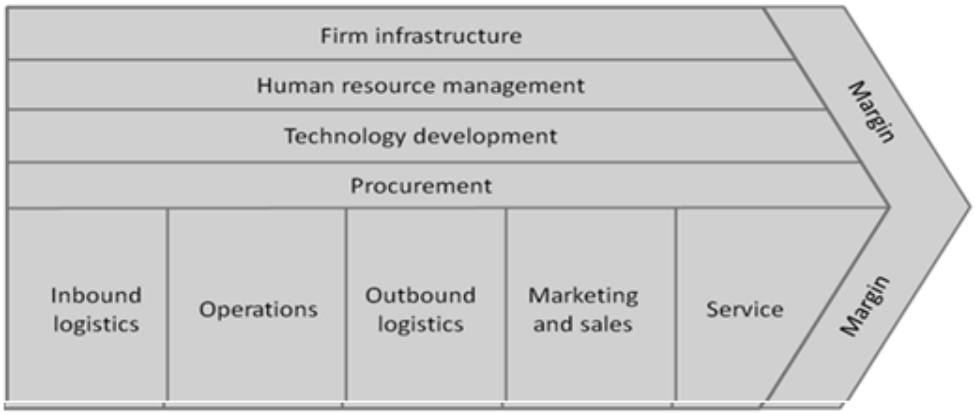

Figure 3: Value Chain Model

Outbound logistics consists of activities that ensure the end product until it is delivered to the customer. Elements like precision of delivery (right product, right amount, right size, etc.), condition of the delivery, and the already mentioned lead-time to the customer are all connected with the overall shopping experience, and will affect the customer in a negative direction if it does not live up to the expectations. Hence, luxury firms, which pursue e-commerce, fulfill the demands of customers with the efficiency and precision of delivery.

Marketing and sales include online activities within digital marketing and sales. It is very important for luxury brands to use these tools in order to keep up with the competition. To give the customer high-value experience through online shopping, as in the physical store, luxury-clothing firms must balance their web-sites with structure, aesthetics and technology. Elements like search functions, navigation, product display, content and design must be interactively integrated (L2 Think Tank, 2010). It is important that the customer can reach the desired information with as few clicks as possible.

Burberry provides customers to review clothes with high quality and 360° view of clothes pictures. It is important to facilitate the opportunity to “see and feel” the product to the extent that it is possible. Burberry, for those reasons, launched its own social networking site, called Art of the Trench, in November 2009. The most iconic design piece of the brand is its trench coat and the site is aiming to inspire the followers in wearing the coat in numerous different ways. On the website, visitors can upload a photo of themselves as they are posing in their Burberry trench coats. In the year of launching, the website reached more than 11 million views (Meagher, 2011). In 2010 and 2011 February, Burberry live streamed its runway shows on the huge screen on the popular Piccadilly Circus in London. Moreover, in 2010 the company broadcasted in 3D women’s fashion show from the London Fashion Week to events in five cities around the world: New York, Los Angeles, Paris, Tokyo and Dubai. Later that year in September, Burberry introduced the Runway to Reality initiative that made it available for customers to order looks straight from the catwalk, directly after the Spring/Summer 2012 Protium fashion show. From this time on, all Burberry fashion shows have been streamed online through Burberry.com, Facework and also on YouTube (Binns, 2011; L2 Think Tank, 2011).

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At the online store, the customer service – both before and after sale service – must be easily accessible and convenient for the customer. To reduce the response time to customer questions, it is possible to use the standard FAQ (Frequently Asked Questions), but the usage of instant messaging through an interactive chat with a customer consultant is widely used to give the customers an answer straight away.

In the previous year, Burberry has dramatically invested into increasing customer service standards that increased the company's productivity as well as contributed to delivering high quality experience for the customers. Burberry established an in-house global customer service team on Burberry World, that provides 24/7 online help to customers, in 14 languages by 'click to call' and 'click to chat' functions and also via telephone and e-mail.

Furthermore, Burberry offers exclusive client services for 'Very Important Clients' worldwide in order to enhance the luxury experience and reinforce customer loyalty (Burberry, 2011).To reduce the workload of the customer service center it is helpful for the customers if the online store has well visible guides that easily show how to order, track, or return a product. Burberry has implemented an international return policy that aims to provide a personalized experience.

SUPPORT ACTIVITIES

Management, financial analysis and legal activities are some of the elements within the classic category of a *firm's infrastructure* in the Value Chain model (Kotler & Keller, 2006). Related to e-commerce, we customize this category into *platform infrastructure*. One of the critical issues in platform infrastructure is the security of online-payment and privacy because hacking and phishing are major threats to e-commerce. In addition, the effective control and management for web site is crucial to make it sure that the e-platform is working properly at any time. For instance, the hyperlinks and media contents, such as images, audio and video, should work efficiently and effectively for the customer to be able to get the best experience for their online purchasing. Burberry has its own team of digital media experts in-house, but they also works together with external digital media companies (Burberry, 2011).

For *human resource management*, luxury firms should be aware of the importance of continuously training and motivating their employees to adapt to the technology changes of e-commerce and social media (Forrester Research, 2010). Luxury firms leverage leading fashion bloggers to promote their products because their opinions can influence consumers' behaviors. Luxury firms might support the influential bloggers by providing them to review or experience their new products.

Technology development is related to activities to develop and maintain technology for e-commerce such as maintaining online store and developing mobile applications. In 2011 Burberry launched a mobile e-commerce application for iPhone and iPad that allowed customers to order apparel off-the-runway. Burberry was one of the pioneers also in this digital innovation in the luxury industry (Strugatz, 2011). *Procurement*, in general, is related to activities to purchase materials to be used for other primary and support activities.

IMPLICATIONS

As a result of all efforts for its digitalization, Burberry becomes the most innovative brand among the luxury fashion companies (Meagher, 2011). In 2011, Burberry increased its brand awareness on social media. For example, it reached 10 million 'likes' on Facebook and the number of followers in Twitter grew by 1066% in 2011. In addition. Adopting e-commerce enabled Burberry to reach new geographic markets. Burberry has successfully reached more people,

and strengthened ties with existing consumers by adopting e-commerce (Burberry, 2011). In 2011, Burberry updated its online store with six languages in 45 countries (Meagher, 2011; Strugatz, 2011). In particular, it attracts potential customers from the Asian country and promoted the Burberry brand recognition and value. For instance, Burberry opened online stores in China, the world's second largest luxury market (Lannes & Han, 2010). In 2012, the total revenue of Burberry increased 24 % and operating income grew up 24% compared to the previous year.

CONCLUSIONS

This paper examined how can luxury brand firms can benefit by adopting e-commerce. Luxury brands might dilute their brand image and face the challenges to deliver the unique experiences for their luxury products to their consumers in the virtual space when they adopt e-commerce. However, we argue that e-commerce can provide opportunities to reach more people and to enter new markets for luxury firms.

This study used the case of the British luxury brand, Burberry, to show how this company adopted e-commerce and transformed its value chain activities to support its online business.

As a result of all efforts for its digitalization, Burberry becomes the most innovative brand among the luxury fashion companies (Meagher, 2011). As this research discussed, Burberry properly utilizes the online communication tool to understand and reach individual customers so that successfully personalized communication with their customers. In 2011, Burberry increased its brand awareness on social media. For example, it reached 10 million 'likes' on Facebook and the number of followers in Twitter grew by 1066% in 2011. In addition adopting e-commerce enabled Burberry to reach new geographic markets. Burberry has successfully reached more people, and strengthened ties with existing consumers by adopting e-commerce (Burberry, 2011). In 2011, Burberry updated its online store with six languages in 45 countries (Meagher, 2011; Strugatz, 2011). In particular, it attracts potential customers from the Asian country and promoted the Burberry brand recognition and value. For instance, Burberry opened online stores in China, the world's second largest luxury market (Lannes & Han, 2010). In 2012, the total revenue of Burberry increased 24 % and operating income grew up 24% compared to the previous year. The digitalization of Burberry enhances the communication with consumers. For now, Burberry has developed effective online stores and applications to facilitate potential customers learning about Burberry and its products. As a future step, Burberry needs to reflect the opinions of its consumers on its product. The experiences and ideas of consumers can be a critical source of innovation (Chesbrough, 2003). This will enhance the value of the products to customers and preserve the unique identity as a luxury brand through e-commerce.

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